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Worth Repeating

We've shaken hands and have a gentlemen's agreement.

Fred Webber, head of the National Soft Drink Association on his pending appointment as president of the U.S. League of Savings Institutions. [Page 2]

FROM THE REGIONS:
THE WEST

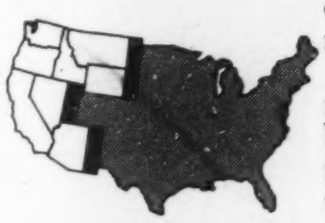
Rivalry Intensifies in California Market

By ROBERT LUKE
West Coast Bureau

LOS ANGELES — Midsize corporate borrowers have long been the mother lode of California banking.

But with so many institutions aggressively mining it of late, some fear its rich margins may be a thing of the past.

Others fret that some competitors may be compromising credit standards in their rush to make deals.



While loan margins may be narrower, some banks think they can bolster profitability by pushing more fee-based products, such as interest rate swaps, through a more efficient distribution system.

The emphasis is on building long-term relationships, rather than quickly turning deals at cut-rate prices and generous terms. Many banks consider the middle market to consist of businesses with sales of $5 million to $250 million.

"The market is in a transition," observes Allan Munro of Greenwich Associates, which recently surveyed about 3,200 California companies on their banking relationships. The firms had sales of $5 million to $50 million.

The latest Greenwich biennial survey found:

• Loan spreads declined to a mean of 121 basis points over the prime rate, from 133 basis points two years earlier. Last year, in a similar survey of larger middle-market firms, Greenwich found the mean fell to 54 basis points over prime from 58 basis points in 1985. The rate of decline in margins was greater in California than nationally: 9.1% versus 5.2%. Spreads in the state, however, continued to be wider than elsewhere.

• The mean loan in California was $1.055 million, compared with $1.094 million nationally. California companies kept mean cash balances of $841,000, compared with $652,000 elsewhere.

• California's businesses are being solicited by more

Tiny Margins: Page 23 ➳

Court Action May Speed Bank Bill

By BARBARA A. REHM and JAY ROSENSTEIN
Washington Bureau

WASHINGTON — The Supreme Court's decision Monday to let the Federal Reserve Board set securities underwriting limits for banks was a clear victory for banks, but one that may bring a backlash.

That backlash could come in the form of banking legislation. In interviews on Tuesday, industry observers here said Congress is more likely to pass a banking bill — whether bankers want one or not — now that the regulators have free rein to expand powers.

While the Fed wants the banks to step carefully into these new markets, many of the larger banks want to dive in. Some money center banks have been fighting for years for the right to underwrite and trade municipal revenue bonds, commercial paper, and asset-backed securities. The Fed authorized limited entry into these investment banking activities in April 1987.

The securities industry held the door shut temporarily, however, with a court challenge. The legal wrangle was completed on Monday when the high court refused to hear arguments in the case, upholding a lower court decision in favor of the banking industry.

The lifting of the court stay on securities powers means that banks can underwrite these securities through a subsidiary — but only up to 5% of the

High Court: Page 31 ➳

Bid-Rigging Charge In 'Superthrift' Deal

By JIM McTAGUE
Washington Bureau

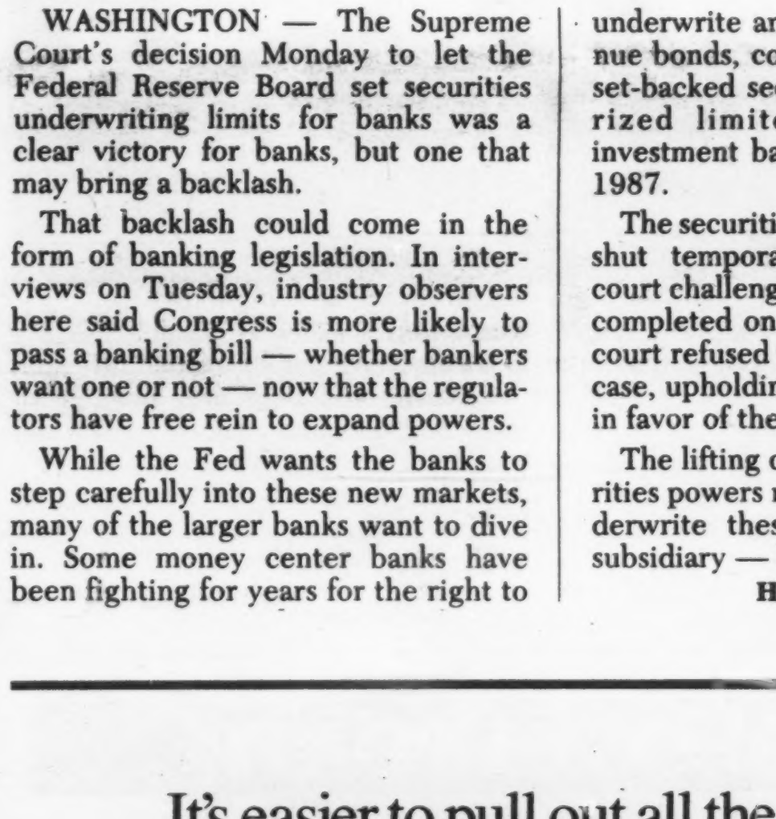
WASHINGTON — Several Congressmen are questioning the legality of a Federal Home Loan Bank Board action that transformed four sickly institutions into a superthrift.

Two congressmen have asked the General Accounting Office to look into a charge by a former thrift executive that federal regulators rigged the bid for the thrift, which was sold in March to an Iowa-based financial services holding company for $21 million.

Statesman Bank for Savings, with 22 branches in Iowa and 5 in Florida, is the only thrift in the country that can

Lawmakers: Page 30 ➳

It's easier to pull out all the stops when you're the one who wrote the music.



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EDS/MTech

Bankers – Take Back Control from Wall Street Analysts

The following is the text of a speech by William F. Staats, given at the 98th annual convention of the Tennessee Bankers Association June 6 in Nashville. Mr. Staats is the Louisiana Bankers Association Professor of Banking at Louisiana State University.

□

MOST OF US can recall the time when the United States industrial empire dominated manufacturing activities on the face of the earth. For example, the steel industry was a major employer in the United States and provided economic prosperity for countless cities across the land and for millions of American families. Second to none in the world, the U.S. steel industry was the cornerstone of our industrial economy.

Most of us can recall when the color television industry was created, developed, pioneered in the United States. For a while every single color television set made in the world was produced on these shores by Americans and American enterprise. That high technology provided jobs for millions of Americans and enhanced the economic welfare of many of our cities and states.

Let's look at those two examples of American enterprise today. The U.S. steel industry scarcely hangs on by the old, proverbial thread. Although in very recent months the declining value of the dollar versus that of the yen has stimulated some steel production and even some minor flows of exports, the United States steel industry is a mere pathetic shadow of its former self.

What about the color television industry? Today, only one company continues to manufacture color television sets in the United States. Moreover, the newest generation of color television, called High Definition, has been invented, developed, and is now entering production across the ocean in Japan. HDTV, as it is called, is vastly superior to current color television, and experts tell us that it will make existing sets obsolete.

What does all this have to do with banking in 1988? Precisely this. The same problems which were brought on by the management of steel companies and of color television manufacturing companies are now being brought upon the banking industry.

Firms in the steel industry and in the television industry began to view their activities as cash cows, and to focus almost exclusively on earnings growth. Management paid little, if any, attention to reinvesting in productive facilities — in the economic capital of their firms. In fact, one executive of a television firm said that orders came from the board level to cut development money. "The order was always to squeeze the profit," he is quoted as saying.

As a result of management myopia, and as a result of the fixation with short-term earnings performance, the once mighty steel industry and the color television set industry have fallen upon tough times. Shareholders have lost value, employees have lost jobs, and managers have lost their positions.

Eye on Wall Street, Earnings

Friends, I see the same thing coming to the commercial banking industry in the United States. Now, anyone who knows me and who is familiar with my speeches and my writings knows that I am not a prophet of gloom, a nay-sayer, a doomster. Rather, I tend to focus on the positive, the optimistic, regarding the economy and the banking industry.

But in recent years I have grown increasingly concerned about the future of our commercial banking industry. I see bankers keeping one eye on Wall Street and the other eye on short-term earnings performance. I see bankers failing to invest in their basic economic capital — their people. And I am concerned about the long-term viability of our industry unless we change our ways.

One of the major structural changes in banking that has brought on this new attitude among bankers has been the multibank holding company. As these organizations have grown increasingly large — covering first one state, then another, then a region, and, very soon, the nation — top executives in charge of acquisitions and stock values have begun to manage purely by the bottom line.

Again, anyone who knows me and of my involvement in bank investments knows that I am concerned about the bottom line as it affects the value of my investment in bank stock. But I want to tell you that there are other factors besides the current quarter's earnings figures that affect bank values. Those other factors are growth, management quality, financial condition, and the image of a bank as a progressive and innovative servant of the community. It seems to me that many of our bank executives are focusing on only the one — albeit the most important — determinant of the value of our bank, that is, earnings.

Sylvio Redinger

However, in their obsessive concern with quarter-to-quarter or even month-to-month earnings performance, management appears to be losing sight of the fundamental strength of banks and of the basic longer-term source of value for these institutions.

Short-Run Tactics

For example, managing a multibank holding company sounds deceptively easy. All you do, you see, is give a bottom-line profit objective to the president of each subsidiary bank. To those presidents who meet the targeted earnings figure, you grant a bonus. To those who do not meet the target, you give notice of termination.

These tactics work in the short run, at least. Chief executive officers of subsidiary banks will do everything that they possibly can to cut costs in order to get the earnings figure up to target. But who is looking at the long-run results of some of those expenditure cuts?

It is really not too hard to cut expenditures at subsidiary banks. Most institutions — banking and otherwise — have some fat on them. So, we simply exorcise the fat, the inefficiency, and costs fall while profits rise. But after the first year or two or three, further cutbacks begin to whittle away at the muscle, the sinew, the fiber, the bone of our organization, the fat having long since been cut out. Because, you see, the relentless search for quarter-to-quarter earnings gains almost requires that the subsidiary cut costs every successive quarter.

Now, to be fair, I must note that profits can be increased by revenue enhancement activities. But it is much tougher to generate greater revenues in the face of increasing competition. So most managers of subsidiary banks will take the easy way out — cutting expenditures. Moreover, you see, to enhance revenues, often we need to spend more money. However, our excessive concern over the bottom line in many cases precludes such expenditures because the revenue enhancement might occur a quarter or a year later — in the short run we would not have reached our target earnings figure.

The sad fact is that as we attempt to cut costs, most of that burden falls upon our employees. In a competitive environment, we cannot very readily cut the largest component of our expenditures — interest expense. So, we turn to the other types of expenditures. Looming largest among these is employee wages and salaries.

Greater efficiency certainly is a desirable objective of banking today. When we can run a bank with one-half of an employee per million dollars of assets, we are in much better shape than in the olden days, when it took, on average, one employee for each million dollars of assets. But we need to have better paid employees who are motivated to do still better jobs in our service business.

'A Bank Is a Group of People'

Bank employees are our economic capital. If we fail to reinvest in this capital, our industry will most assuredly go the way of the steel industry and of the color television manufacturing industry. Top management must recognize that a bank is nothing but a group of people. In a book that I wrote for the American Bankers Association a number of years ago, I defined a bank as a group of people organized to produce products and sell them at a profit. The most important element of that definition is the first few words — a bank is a group of people.

If I were to require a $70,000 loan for my business, it really would not matter to me where I get that loan — $70,000 is $70,000 whether I get it from one bank or another bank, or even from a nonbank competitor. The money is absolutely the same. Generally, if I have a checking account, it does not matter to me whether I get my checking account services from a bank, credit union, or S&L. All of those checks and drafts work exactly the same way.

What, then, will urge me to get my loan or open my checking account at your bank? What differentiates the loan or the checking account at your bank? Essentially, it is the people. People produce our bank products and people add value to those products in a highly competitive marketplace.

Bank employees are simply too important to be treated as a minor element in the productive process of bank products. They are our economic capital just as assuredly as the blast furnaces represent the economic investment of the steel companies. Just like the blast furnaces and the intricate manufacturing facilities for color television sets, our people need to be modernized continually if they are to remain capable of delivering new and sophisticated products at the most effective price levels in the economy.

We need to motivate our people to better performance. We do not motivate when we demotivate! And much of the frantic cost-cutting that I see taking place in the banking industry as we squeeze out additional profits is demotivating our people.

I have seen the adverse impact of excessive cost cutting. I have seen the damage to our economic capital. For example, a number of bank holding companies — and I want to make sure that everyone understands that there are exceptions — eliminate continuing education programs outside of the bank. They say, "Oh, yes, we train internally." And many do a credible job of it.

In some cases, banks simply rule out all banking schools, for example. And I want to tell you that there is no possible way to deliver banking education in-house as effectively and efficiently as it can be delivered through banking schools sponsored by state associations or through regional schools such as the Graduate School of Banking of the South.

Required Reading: Page 24 ➡

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Tiny Margins, Many Rivals Challenge California Banks

Continued from Page 1

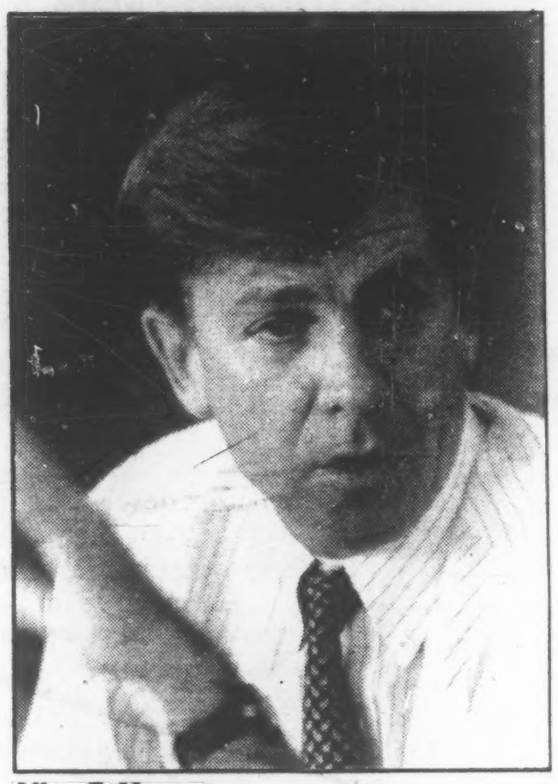
banks. About a third said they had been contacted by Japanese-owned institutions.

• But 55% of the companies did not recall any in-person solicitations, suggesting that many of the contacts were cursory. That reflects the desire of banks to get more information about the companies, most of which are privately held, Mr. Munro says.

• Some 17% of the businesses added a new bank last year, compared with 13% nationally. Of those adding a bank, 35% expected to replace a bank. This year, 18% of the companies plan to add a bank, compared with 12% nationally.

• California companies continued to have fewer banking relationships than the national average (2.6 versus 3.1), and also tended to be less price sensitive.

• About a fifth of the companies felt their banks were tightening loan pric-



Allan F. Munro

ing and terms and conditions. Only 4% felt their banks were loosening price and terms.

On the latter score, some bankers beg to differ:

"Compromise of credit standards is going to hurt a lot of people," observes John F. Grundhofer, vice chairman at Wells Fargo Bank.

Scott A. Kisting, senior vice president of Bank of America's commercial banking group, agrees.

"Some of our major competitors are taking risks I wouldn't take in terms of building market share." According to Mr. Kisting, some banks are not requiring the principals of companies to personally guarantee business loans. Nor are they requiring covenants that will permit banks to seize collateral or accelerate loan payments if certain loan conditions are not met. He declined to identify the banks.

"I think it's more pervasive than what I'd like to see in the marketplace, but then again it's understandable from a competitive standpoint, because if you are really trying to move markets, the tools you have are credit structure and price. And it's a combination of the two that will move business."

Keeping loan losses down, and driving down servicing and other costs, can increase flexibility in pricing, says Mr. Grundhofer, who notes that Wells' loss ratio in the middle market has averaged 35 to 40 basis points over the past seven years. That has allowed the bank to price aggressively yet meet its goal of achieving a 1.20% return on assets from that business.

Wells' aggressive pricing irks competitors, big and small.

"That they are all annoyed is a mild term for it," says John J. Keating, chairman and chief executive officer of Lincoln National Bank in suburban Encino. Lincoln recently lost a customer to Wells. The manufacturer wanted $1.5 million, which Lincoln had offered at 250 basis points over prime.

"Wells came in with prime plus one, with no balance [requirement]," recalls Mr. Keating, whose bank has profited handsomely by specializing in the middle market. Lincoln's earnings, for example, rose 51% last year from the previous year.

Sanwa Bank California, another aggressive pricer, also has felt the heat from Wells. Sanwa is one of several Japanese-owned banks that want a larger slice of the market. Another, California First Bank, owned by the Bank of Tokyo Ltd., is acquiring Union Bank, the state's fifth largest bank and one of its largest middle-market specialists.

Sanwa, which wants to increase its middle-market lending by 12% to 15% this year, recently competed with Wells for a $2.5 million credit in Sacramento, says Robert H. Cooke, senior executive vice president. Sanwa had sought a fee for a portion of the credit, and a 25-to-50-basis-point differential in the rate between the short- and long-term funds.

"Wells Fargo did that for no fee and no differentiation between the long term and the short term," Mr. Cooke recalls. "We, from a pricing point of view, didn't think that made sense. So Wells Fargo got the business."

Observes another banker, who asked not to be identified: "They are definitely the market-share-driven bank. They feel the more mass they can run through their offices, the better off they are. The speculation is that they are setting up themselves to be acquired. And that they are buying market share to make themselves more attractive to outside [California] institutions interested in coming into this market."

Wells may be driven by market share, but it is being selective about the business it is going after, says Mr. Grundhofer, noting that "risk-reward still is not well understood by banks. There's not a big price-risk differentiation today. That's got to come."

Bank of America's Mr. Kisting agrees: "The trick is to be more nimble, to try to identify the winners. I'm committed to banking the best-managed companies. For example, I don't want to bank up to 95% of [computer] disk drive companies, because I don't think 95% of them are going to make it. But I want to bank 40% of the well-managed ones."

He wants to provide banking services not just for the companies but for their owners as well, from boat loans to personal trusts.

"Banks are trying to get the whole [banking] relationship to themselves and let no one else in, because that's where the profitability is," says Greenwich's Mr. Munro.

So far, the stiffest competition has been for the 1,000 or so upper-tier companies with sales of at least $50 million. Many of those have multiple banking relationships and, in recent years, have come to rely on investment bankers to help tap the capital markets for financing. Bankers now are vying for that piece of the action.

"Our approach will be to use capital markets products as an adjunct to the credit financing that is still at the heart of the middle market," says J. Kendrick Whiting, senior vice president and manager of regional corporate centers at First Interstate Bank of California. To do otherwise jeopardizes the long-term relationships that banks are trying to cultivate with customers.

"The merchant banker has a mentality that's more like the investment banker in that he thinks in terms of transactions, not necessarily about the long-term relationship," Mr. Whiting observes.

Nevertheless, bankers are introducing more capital markets products, such as interest rate swaps, into the lower end of the market, which largely has been the domain of community banks. Moreover, some banks, such as First Interstate, are now seeking to develop the small business market.

Margins in the lower end of the middle market are fatter, reflecting increased risk, and customers often are loyal.

Mr. Munro notes that nearly three-quarters of the estimated 15,000 California companies with sales of $5 million to $50 million still deal with one bank. The typical middle-market company changes its bank once in 15 years on average, according to Mr. Munro. That occurs largely because of poor service or fears that a bank's weak financial condition might cause a cutoff of credit.

That fear of credit loss has hurt the Bank of America, the market leader, and prompted existing customers and prospective new ones to seek credit elsewhere.

"Anytime anybody pulls a prospect list, 4 names out of 10 are going to belong to us," Mr. Kisting acknowledges. Nevertheless, he claims the state's largest bank has retained virtually all of its customer base, which it built over the years with its extensive branch network.

Industry observers dispute Mr. Kisting's claim. They estimate that Bank of America's share of the market has eroded substantially. Figures are not readily available.

But the bank now is aggressively courting customers and, in Southern California alone, Mr. Kisting predicts that Bank of America's volume of middle-market loans will increase 16% to 17% this year from last year's $1.4 billion.

Combined, the state's 15 largest banks control about 75% of the market, according to Mr. Munro of Greenwich Associates.

Mr. Grundhofer observes that California's largest banks are now restructuring their middle-market operations, which Wells began in 1978 and completed in 1981.

The resulting turmoil has caused those banks to lose customers, particularly as they shift or lose personnel and pull corporate accounts from local branches into regional corporate lending centers.

Competitors often point to Security Pacific National Bank, which reconfigured its middle-market unit last year, as one of the banks most affected.

"Six months ago, I would say we were somewhat diverted," acknowledges R. Bruce Owen, executive vice president at Security Pacific. "But my feeling today is that the group is very, very focused."

Rivalry: Page 27

Why Banks Lose Business

Responses from middle-market companies

	Total Companies (1,584)	Total California (219)
Weakening financial condition of bank	82%	81%
Inefficient operations services	80	81
Difficulty in negotiating credit terms and price	75	68
Refusing to tailor credit arrangements	74	73
Price for services too high	66	65
Lack of personal attention	66	66
Bank becomes too small	38	45
Too few cash management services	27	25
Lack of international capability	20	28
Bank becomes too big	18	19

Source: Greenwich Associates

Top Benefits of Long-Term Relationships

Responses from middle-market companies

	Total Companies (814)	Total California (219)
More responsive service	76%	82%
Lower overall cost of service	69	66
Closer attention to company's needs	66	70
More certain availability of credit	61	62
Access to bank's top management	58	64
Access to all of the bank's service capabilities	57	51
Having more qualified account officer assigned	55	58

Source: Greenwich Associates

Prime Rate Spread

What middle-market firms are charged for loans

Loan Rate Compared To Prime	Total Companies (8,522)	Total California (1,011)
>+3.00 points	2%	2%
+3.00	1	1
+2.75	*	*
+2.50	1	1
+2.25	*	1
+2.00	8	15
+1.75	1	2
+1.50	9	15
+1.25	2	4
+1.00	29	21
+0.75	3	3
+0.50	12	8
+0.25	4	4
0	12	8
-0.25	*	*
-0.50	*	*
-0.75	*	0
-1.00	1	*
-1.25	0	0
No answer	6	7
Uncertain	10	7
Mean	**0.94**	**1.21**
Mean 1986	**0.99**	**1.33**

*Less than 1%
Surveyed companies had sales of $5 million to $50 million. Data from March-April 1988 survey.
Source: Greenwich Associates

Rivalry Heats Up In California

Continued from Page 23

Mr. Grundhofer thinks the restructuring efforts at other banks may prove to be less than satisfying. He notes, for example, that Wells has hired new staffers.

"We wanted a new culture," explains Mr. Grundhofer, noting that other banks are "just switching people around."

Wells' new calling officers are akin to insurance agents, in that they are paid commissions based on the profitablity of the business they book. But some of that new business apparently is not sticking.

"Once brought in the door, the business has not been as steadfast as it might be," says one industry analyst, who asked not to be identified.

Joseph Sanford, president of First Business Bank here, agrees with Mr. Grundhofer and others that the manner in which a bank approaches the middle market is important.

"Our whole thing is service," Mr. Sanford says. "Banking is a lot more than making loans and what interest rate you're going to charge me on a loan. But the customer is not going to tell you that. You have to develop the services and the value-added concepts and show those to him. They have to be good enough so that he buys them. That's the challenge of it." ■

Powder Mill Has Local Focus, Latest Technology

Continued from Back Page

said. "We want the customer to walk away with interest current, everything current. We want state-of-the-art. Liuba knew what she wanted and left it to them to get the equipment."

The equipment MTech installed includes five model 2262 teller stations and one model 5070 automated teller machine, all from NCR Corp.; and six DX1100 administrative terminals from Datamax Corp., Tallahassee, Fla. (With mock irritation, Mr. Stancel said one of the Datamaxes was in his office but Ms. Beauvais felt it was needed elsewhere more, and moved it. Another is on order for the CEO.)

Before opting for MTech, Powder Mill Bank considered two other data processors. One was NCR; the other was a bank that Mr. Stancel did not identify. "We did not want to go to the bank because then they'd have all our information," he said.

He also had a good feeling about a service bureau he used when he was at Heritage. It was National Computer Analysts, or NCA, a Princeton firm that was the dominant data processor for community banks in New Jersey. MTech acquired NCA last year, making that firm its Princeton data center.

Acting Like a Big Bank

The MTech facility in Princeton has about 100 employees. It is a remote center for about 20 institutions in New York, Pennsylvania, and New Jersey, including Powder Mill, that use MTech's Banker 2000 line of applications. It also serves institutions using the BMIS 2000 package of banking applications, the primary product MTech offers out of Dallas.

The Banker 2000 software is on an MTech computer in Belpre, Ohio, that serves about 100 banks altogether. The Princeton center performs capture services for the Belpre mainframe, a Unisys machine.

Powder Mill is on-line to Princeton during the day. After the close, the bank ships all its items there. MTech performs batch updates overnight — encoding the checks, running them through a reader-sorter, creating a cash letter, creating a file to update accounts, and transmitting everything to Belpre.

When processing is complete, Belpre transmits back to Princeton all the reports the bank will use. Princeton delivers hard copies of the reports to the bank. And when the bank comes on line about 8 a.m., all its files have been updated.

All this, Mr. Stancel said, gives Powder Mill the features and flexibility of larger institutions.

"Even though we are a $26 million bank, we operate like a $26 billion bank," Mr. Stancel said. "I can enter into any negotiation for a large transaction that is way over our lending limit, because of participation."

But the time for Powder Mill Bank to go in-house is not yet in sight. "MTech has volumes in there that I haven't even reached yet," Mr. Stancel said.

Investing in an Investment

Powder Mill Bank was incorporated April 7, 1987, and its initial $4.75 million stock offering was oversubscribed, although there was no underwriter. "We came out with a circular and within one week we closed the sale," Mr. Stancel said. "We had to return about $2 million to investors that didn't make the cut."

Ryan, Beck & Co., West Orange, N.J., makes a market in the stock.

One of the incorporators, and a director, is Dean A. Gallo, a local real estate investor/broker and Republican member of the House of Representatives seeking reelection to a third term.

Mr. Gallo is not a member of the House Banking Committee, and he is sponsor of a bill that can scarcely be termed probanker. Introduced a year ago, the bill would amend the Truth-in-Lending Act to protect borrowers on mortgage rate lock-ins, the loan commitments that some institutions backed away from when interest rates fell sharply.

The congressman is in that majority of Powder Mill's 416 shareholders who come from Morris County. And he is among the 66% of shareholders who also are customers of the bank. "They invest in their investment," Mr. Stancel said. "They put their money where their money is."

Mr. Stancel said the primary function of Powder Mill Bank, as of any community bank, is to provide personalized service.

"Customers can get quick decisions," he said. "Officers don't have to wait for the routine paperwork to go to a corporate headquarters 50 miles away. They can make decisions on the spot, about CD rates, lending rates, a credit decision on an applicant who may be right there in the bank. All these can be made in the 5,800 square feet we have in one location. We are experienced enough and talented enough to respond quickly to any customer's need on the spot." ■

DAILY FINANCIALS

Tuesday June 14, 1988

Money Market

Federal funds range 7 5/16%-7½%
Prime rate (5/12/88) 9.00%
Discount rate FRB of New York (9/4/87) 6.00%

Call loans on securities, to brokers on stock exchange collateral (5/27/88) 8.50%

Bankers acceptances offering rate, discount (6/14)
30 days: 7.23 60 days: 7.27 90 days: 7.27
120 days: 7.27 150 days: 7.28 180 days: 7.27

Certificates of deposit ($100,000 to $1,000,000), highest offering rate, at New York City banks (6/14)
14 days: 6.80 30 days: 7.05 60 days: 7.10
90 days: 7.10 120 days: 7.15 150 days: 7.25
180 days: 7.30 270 days: 7.40 360 days: 7.60

Commercial paper, dealer Aaa, discount (6/14)
30 days: 7.25 60 days: 7.30 90 days: 7.35

Commercial paper, directly placed, discount (6/14)
5-14 days: 6.50-7.125 15-29 days: 6.50-7.125
30-59 days: 6.50-7.30 60-89 days: 6.50-6.875
90-179 days: 6.50-6.875 180-270 days: 6.50-6.875

Treasury-bill rates, secondary market, bid (6/14)
90 days: 6.45 180 days: 6.67 1 year: 6.95

Eurodollar deposits, London bid (6/14)
Overnight: 7¼ 7 days: 7⅜ 1 month: 7 7/16
3 mos.: 7 7/16 6 mos.: 7⅜ 1 year: 7 15/16

NIBOR: 7.688% **LIBOR:** 7.813%

The Bond Buyer Municipal Bond Index

	6/14/88	6/13/88	6/7/88
Index	89.22	88.29	88.01
Yield to Par Call	8.11	8.22	8.35
Yield to Maturity	7.96	8.03	8.12

The Bond Buyer Municipal Bond Index was designed by the Chicago Board of Trade as the basis for long-term municipal bond futures contracts. It is an average obtained when the price of 40 select term bonds is divided by the amount at which each bond would be priced to yield 8%. The Index is computed daily and quoted in points and 32nds.

Futures Markets

3-Month Treasury-Bill Futures (IMM)*

Delivery	High	Low	Settle	Chg(a)	Yld(b)
Sept.'88	93.59	93.39	93.56	+16	6.44
Dec. '88	93.33	93.15	93.30	+15	6.70
Mar. '89	93.14	93.07	93.13	+15	6.87
Jun. '89	92.97	92.91	92.96	+14	7.04
Sept.'89	92.84	92.80	92.84	+15	7.16
Dec. '89	92.74	92.70	92.73	+13	7.27
Mar. '90	92.61	92.60	92.64	+14	7.36

As of the previous day's close; Total no. of contracts traded: 3,123 total open interest: 18,179 and change in open interest: - 25

American Banker Index

Selected Money Center Bank Stocks*

			High	Low	Last
June 14:	294.3	1988:	294.3	227.7	294.3
June 13:	289.1	1987:	401.7	212.0	234.6
June 10:	288.8	1986:	388.7	331.2	331.3
June 9:	285.8	1985:	344.2	242.7	344.2
June 8:	288.2	1984:	269.6	178.4	246.3

* Based on midday prices.

FEDERAL HOME LOAN BANK SYSTEM

Federal Home Loan Banks

New Issue
June 15, 1988

This announcement appears as a matter of record.

Consolidated Bonds

$465,000,000 Series FF-1989 LIBOR-Indexed
Dated June 20, 1988 Non-Callable Due June 20, 1989
LIBOR One-Month Index established June 16, 1988 and reset monthly on the 18th (or two business days prior to the effective date of the 20th).
Interest rate equal to .30% below Index.
Interest payable on September 20 and quarterly thereafter.
Price 100% CUSIP # 313388 TG 5

$975,000,000 7.75% Series GG-1989
Dated June 27, 1988 Non-Callable Due June 26, 1989
Interest payable on December 26 and at maturity
Price 100% CUSIP # 313388 TD 2

$1,050,000,000 8.30% Series T-1991
Dated June 27, 1988 Non-Callable Due June 25, 1991
Interest payable on December 25 and June 25
Price 100% CUSIP # 313388 TE 0

$830,000,000 8.875% Series D-1995
Dated June 27, 1988 Non-Callable Due June 26, 1995
Interest payable on December 26 and June 26
Price 100% CUSIP # 313388 TF 7

(Available in Book-Entry Form only; Minimum Amount of $10,000.)

These Consolidated Bonds are the joint and several obligations of the Federal Home Loan Banks and are legal for investment by savings banks, insurance companies, trustees, and other fiduciaries under the laws of many states. The offering of these Bonds is made by the Federal Home Loan Banks through the Office of Finance with the assistance of a nationwide selling group of recognized dealers in securities.

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